

AMES COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2006

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Ames Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2005 Election)</b>		
Gail Johnston	President	2006
Mark Snell	Vice President	2005
Gloria Symons	Board Member	2005
Pat Brown	Board Member	2007
Jane Acker	Board Member	2007
Mary Ann Dilla	Board Member	2006
Roy Cakerice	Board Member	2006

<b>Board of Education (After September 2005 Election)</b>		
Mary Ann Dilla	President	2006
Ronald Werner-Wilson	Vice President	2008
Gail Johnston	Board Member	2006
Roy Cakerice	Board Member	2006
Pat Brown	Board Member	2007
Jane Acker	Board Member (Resigned)	2007
Brian Dieter	Board Member (Appointed)	2006
Mike Murray	Board Member	2008

<b>(After November 15, 2005 Special Session)</b>		
Ronald Werner-Wilson	President	2008
Gail Johnston	Vice President	2006
Mary Ann Dilla	Board Member	2006
Roy Cakerice	Board Member	2006
Brian Dieter	Board Member	2006
Pat Brown	Board Member	2007
Mike Murray	Board Member	2008

<b>School Officials</b>		
W. Ray Richardson	Superintendent	2006
Kurt Subra	District Secretary/Treasurer and Chief Financial Officer	2006
Ahlers & Cooney, P.C.	Attorney	2006

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
**(a professional corporation)**  
117 West 3rd Street North, Newton, Iowa 50208-3040  
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Ames Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Ames Community School District, Ames, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Ames Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

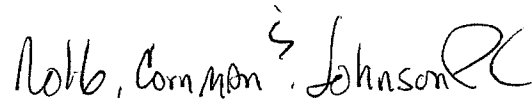
In accordance with Government Auditing Standards, we have also issued our report dated August 11, 2006 on our consideration of Ames Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 39 through 40 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Ames Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Nolte, Cornman & Johnson" followed by a stylized flourish.

NOLTE, CORNMAN & JOHNSON, P.C.

August 11, 2006

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The Ames Community School District provides the Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2006 FINANCIAL HIGHLIGHTS**

- Fiscal 2006 General Fund revenues exceeded expenses by \$1.2 million. The excess of revenues over expenses resulted in an increase in the fund balance from \$7.3 million to \$8.5 million. Revenues were \$39.7 million vs. \$39.2 million in fiscal 2005, and expenditures were \$38.5 million vs. \$36.7 million in fiscal 2005. Revenues continued to benefit from the general cash reserve levy, at nearly \$1.5 million for fiscal year 2006.
- The District's September 2005 enrollment declined for the eighth consecutive year. The certified enrollment was 4,333, a decrease of 637 over the past eight years.
- The state granted 4% "allowable growth," which was the increase in per pupil spending. This follows years of 2% allowable growth in fiscal years 2004 and 2005, respectively. Over the past three years Iowa school districts have received the least allowable growth in the nearly 35-year history of the school foundation aid formula.
- The District's School Nutrition Fund generated a \$61,543 loss before considering capital contributions.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Ames Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Ames Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Ames Community School District acts solely as an agent or custodial for the benefit of those outside of School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
**Ames Community School District Annual Financial Report**

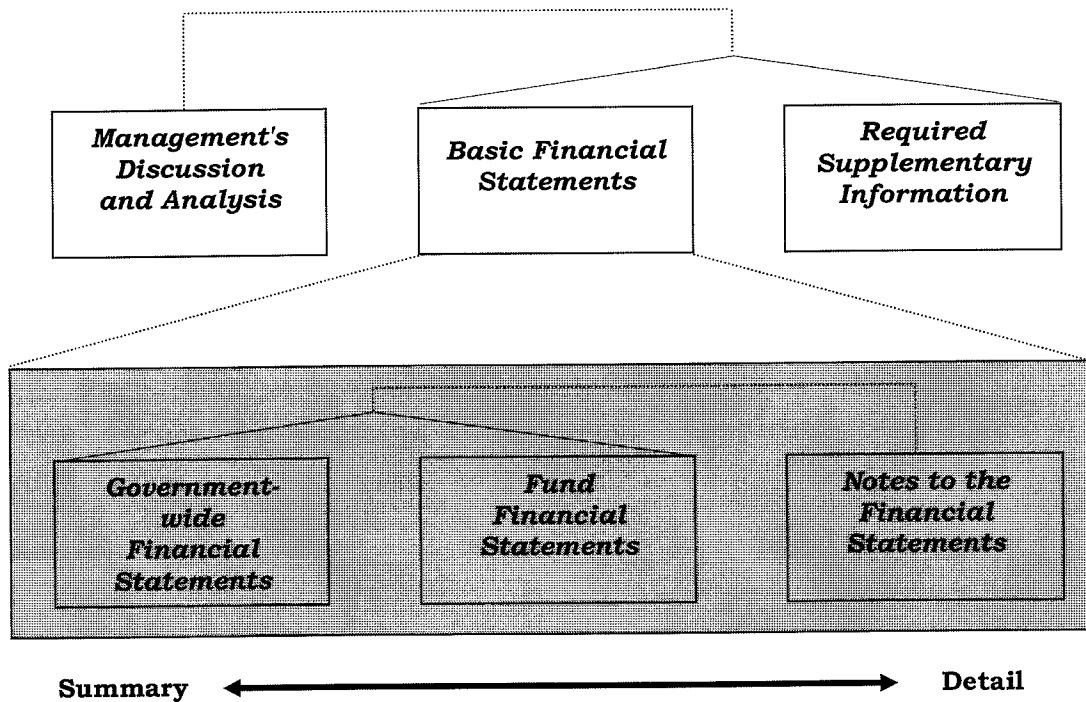


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b> <b>Major Features of the Government-Wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.



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The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund. The District's internal service funds, one type of proprietary fund, are the same as the governmental activities, but provide more detail and additional information, such as cash flows. The District currently has two internal service funds, the Health Insurance Fund and the Print Shop Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 49,554,618	44,002,531	60,765	36,579	49,615,383	44,039,110	12.66%
Capital assets	55,407,462	48,325,635	844,778	202,092	56,252,240	48,527,727	15.92%
Total assets	104,962,080	92,328,166	905,543	238,671	105,867,623	92,566,837	14.37%
Long-term obligations	31,666,043	21,166,558	0	0	31,666,043	21,166,558	49.60%
Other liabilities	32,013,783	34,958,477	1,004,527	1,024,189	33,018,310	35,982,666	-8.24%
Total liabilities	63,679,826	56,125,035	1,004,527	1,024,189	64,684,353	57,149,224	13.19%
Net assets:							
Investment in capital assets, net of related debt	26,227,514	26,549,905	844,778	202,092	27,072,292	26,751,997	1.20%
Restricted	333,610	350,130	0	0	333,610	350,130	-4.72%
Unrestricted	14,721,130	9,303,096	(943,762)	(987,610)	13,777,368	8,315,486	65.68%
Total net assets	\$ 41,282,254	36,203,131	(98,984)	(785,518)	41,183,270	35,417,613	16.28%

The District's combined net assets increased by 16.28%, or \$5,765,657, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$16,520, or 4.72% over the prior year. The decrease was primarily a result of the decrease in the Special Revenue, Student Activity Fund balance.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$5,461,882, or 65.68%. This increase is due to the increase in fund balance in the General and Internal Service Funds.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 4,301,613	4,234,413	958,291	882,847	5,259,904	5,117,260	2.79%
Operating grants and contributions and restricted interest	3,770,707	3,729,203	425,410	371,651	4,196,117	4,100,854	2.32%
Capital grants and contributions and restricted interest	0	150,000	0	0	0	150,000	-100.00%
General revenues:							
Property tax	24,238,200	23,789,268	0	0	24,238,200	23,789,268	1.89%
Income surtax	1,771,989	1,616,346	0	0	1,771,989	1,616,346	9.63%
Local option sales and services tax	3,891,808	4,508,504	0	0	3,891,808	4,508,504	-13.68%
Unrestricted state grants	11,429,589	11,710,741	0	0	11,429,589	11,710,741	-2.40%
Other	1,257,558	270,325	0	0	1,257,558	270,325	365.20%
Total revenues	50,661,464	50,008,800	1,383,701	1,254,498	52,045,165	51,263,298	1.53%
Program expenses:							
Governmental activities:							
Instructional	26,040,408	25,834,842	0	0	26,040,408	25,834,842	0.80%
Support services	11,651,335	9,611,860	0	0	11,651,335	9,611,860	21.22%
Non-instructional programs	0	0	1,445,244	1,246,487	1,445,244	1,246,487	15.95%
Other expenses	7,890,598	4,001,707	0	0	7,890,598	4,001,707	97.18%
Total expenses	45,582,341	39,448,409	1,445,244	1,246,487	47,027,585	40,694,896	15.56%
Changes in net assets before capital contributions	5,079,123	10,560,391	(61,543)	8,011	5,017,580	10,568,402	-52.52%
Capital contributions	0	0	748,077	110,402	748,077	110,402	577.59%
Changes in net assets	5,079,123	10,560,391	686,534	118,413	5,765,657	10,678,804	-46.01%
Beginning Net Assets	36,203,131	25,642,740	(785,518)	(903,931)	35,417,613	24,738,809	43.17%
Ending Net Assets	\$ 41,282,254	36,203,131	(98,984)	(785,518)	41,183,270	35,417,613	16.28%

In fiscal 2006, property tax, local option sales and services tax and unrestricted state grants account for 81.58% of the revenue from governmental activities while charges for service and seals and operating grants and contributions account for 100% of the revenue from business-type activities.

The District's total revenues were \$52,045,165 of which \$50,661,464 was for governmental activities and \$1,383,701 was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a 1.53% increase in revenues and a 15.56% increase in expenses. Property tax increased by \$604,575 to fund increases in expenditures. The increases in expenses related to increases in negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

### Governmental Activities

Revenue for governmental activities were \$50,661,464 and expenses were \$45,582,341.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Service		
	2006	2005	Change 2005-06	2006	2005	Change 2005-06
Instruction	\$ 26,040,408	25,834,842	0.80%	19,402,520	19,296,595	0.55%
Support services	11,651,335	9,611,860	21.22%	11,438,596	9,404,484	21.63%
Other expenses	7,890,598	4,001,707	97.18%	6,668,905	2,633,714	153.21%
Totals	<u>\$ 45,582,341</u>	<u>39,448,409</u>	<u>15.55%</u>	<u>37,510,021</u>	<u>31,334,793</u>	<u>19.71%</u>

- The cost financed by users of the District's programs was \$4,301,613.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$3,770,707.
- The net cost of governmental activities was financed with \$29,901,997 in local tax, \$11,429,589 in state aid and \$1,257,558 in other general revenues.

### Business-Type Activities

Revenues of the District's business-type activity were \$1,383,701 and expenses were \$1,445,244. The District's business-type activity is the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements.

During the year ended June 30, 2006, the District increased revenues, while expenditures increased. Due to the contributed capital from the Capital Projects Fund of \$748,077, this caused the fund balance to increase \$686,534 to a deficit fund balance of \$98,984.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the Ames Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$11,375,733, above last year's ending fund balances of \$5,365,624. However, the primary reason for the increase in the combined fund balances is the increase in the General Fund balance.

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## **Governmental Fund Highlights**

- The District's General Fund financial position is the product of many factors. Growth during the year in tuition and other local sources resulted in an increase in revenues. The increase in revenues was partially offset by the District's increase in General Fund expenditures, but the net result was an increase in fund balance from \$7,304,400 to \$8,498,329.
- The Capital Projects Fund balance increased from a deficit \$3,899,748 to a deficit \$158,274, due in most part to the issuance of revenue bonds.
- The Debt Service Fund balance increased from \$23,749 to \$582,820, due in most part to the debt reserve requirements tied to the revenue bonds issued during the year.

## **Proprietary Fund Highlights**

The School Nutrition Fund net assets increased from a deficit \$785,518 at June 30, 2005 to a deficit \$98,984 at June 30, 2006, representing a major improvement due to the acquisition of capital assets paid for with local option sales and services tax revenues.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Ames Community School District amended its annual budget one time to reflect additional expenditures associated with instruction and support service functions and a reduction in non-instructional programs and other expenditure functions.

The District's revenues were \$1,535,566 more than budgeted revenues, a variance of 3.05%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget exceeded in the support services function due to the timing of expenditures paid at year-end without sufficient time to amend the certified budget, as well as account codification reclassifications required by the Iowa Department of Education for submission of the certified annual report.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2006, the District had invested \$56.3 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities and transportation equipment. (See Figure A-6) This amount represents a net increase of 17.22% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$1,720,162.

The original cost of the District's capital assets was \$75,057,899. Governmental funds account for \$73,921,610 with the remainder of \$1,136,289 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$169,931 at June 30, 2006, compared to \$29,931,741 reported at June 30, 2005. This decrease resulted from the

capitalization of construction costs associated with completion of the new middle school and construction at the high school.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 4,981,652	4,981,652	0	0	4,981,652	4,981,652	0.00%
Construction in progress	169,931	29,931,741	0	0	169,931	29,931,741	-99.43%
Buildings	42,866,682	11,487,931	0	0	42,866,682	11,487,931	273.15%
Land improvements	5,834,225	784,731	0	0	5,834,225	784,731	643.47%
Machinery and equipment	1,554,972	1,139,580	844,778	202,092	2,399,750	1,341,672	78.86%
Total	\$ 55,407,462	48,325,635	844,778	202,092	56,252,240	48,527,727	15.92%

### Long-Term Debt

At June 30, 2006, the District had \$31,666,043 in general obligation and other long-term debt outstanding. This represents an increase of 49.6% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding General Obligation Bonds payable of \$8,655,000 at June 30, 2006.

The District also had outstanding Revenue Bonds payable from the Capital Projects Fund of \$20,000,000 at June 30, 2006.

The District had outstanding Capital Loan Notes payable from the Special Revenue, Physical Plant and Equipment Levy Fund of \$1,000,000 at June 30, 2006.

The District had outstanding early retirement payable from the Special Revenue, Management Fund of \$1,654,741 at June 30, 2006.

The District had outstanding termination benefits payable from the General Fund of \$37,109 at June 30, 2006.

The District had outstanding compensated absences payable from the General Fund of \$319,193 at June 30, 2006.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2006	2005	2005-06
General obligation bonds	\$ 8,655,000	9,005,000	-3.9%
Revenue bonds	20,000,000	0	100.0%
Bond anticipatory notes	0	8,400,000	-100.0%
Capital loan notes	1,000,000	1,555,000	-35.7%
Early retirement	1,654,741	1,884,357	-12.2%
Termination benefit	37,109	0	100.0%
Compensated absences	319,193	322,201	-0.9%
Totals	\$ 31,666,043	21,166,558	49.6%

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could affect its financial health in the future:

- The District has experienced declining enrollment for the past eight years. Despite growth in the city of Ames, there is little residential growth within the school district's boundaries.
- The state's economy is showing limited signs of economic recovery. A weaker economy adversely impacts the amount of new general fund money available to the District.
- The District is currently negotiating with the teachers for the FY 2008 school year and just completed negotiations with PPME for the 2008 school year. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance. Corresponding cost reductions may be necessary to offset the cost of negotiated settlements and other cost increases.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Karen Shimp, District Secretary/Treasurer and Chief Financial Officer, Ames Community School District, 415 Stanton Avenue, Ames, Iowa, 50014-7331.

## BASIC FINANCIAL STATEMENTS



AMES COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 19,478,121	1	19,478,122
Receivables:			
Property tax:			
Delinquent	221,423	0	221,423
Succeeding year	25,302,813	0	25,302,813
Income surtax	1,575,034	0	1,575,034
Interfund	488,605	0	488,605
Accounts	434,067	45,267	479,334
Due from other governments	2,018,384	0	2,018,384
Prepaid items	15,808	0	15,808
Inventories	20,363	15,497	35,860
Capital assets, net of accumulated depreciation(Note 5)	55,407,462	844,778	56,252,240
<b>TOTAL ASSETS</b>	<b>104,962,080</b>	<b>905,543</b>	<b>105,867,623</b>
<b>LIABILITIES</b>			
Interfund payable	0	488,605	488,605
Accounts payable	1,743,469	493,809	2,237,278
Salaries and benefits payable	4,338,078	2,372	4,340,450
Incurred but not reported claims	419,085	0	419,085
Interest payable	107,768	0	107,768
Deferred revenue:			
Succeeding year property tax	25,302,813	0	25,302,813
Other	46,081	0	46,081
Unearned revenue	56,489	19,741	76,230
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds payable	365,000	0	365,000
Revenue bonds payable	2,083,550	0	2,083,550
Capital loan notes payable	580,000	0	580,000
Early retirement payable	610,290	0	610,290
Termination benefit payable	6,761	0	6,761
Compensated absences payable	319,193	0	319,193
Portion due after one year:			
General obligation bonds payable	420,000	0	420,000
Revenue bonds payable	17,916,450	0	17,916,450
Capital loan notes payable	8,290,000	0	8,290,000
Early retirement payable	1,044,451	0	1,044,451
Termination benefit payable	30,348	0	30,348
<b>TOTAL LIABILITIES</b>	<b>63,679,826</b>	<b>1,004,527</b>	<b>64,684,353</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	26,227,514	844,778	27,072,292
Restricted for:			
Early intervention	1,020	0	1,020
Additional teacher contract day	2,461	0	2,461
Other special revenue purposes	330,129	0	330,129
Unrestricted	14,721,130	(943,762)	13,777,368
<b>TOTAL NET ASSETS</b>	<b>\$ 41,282,254</b>	<b>(98,984)</b>	<b>41,183,270</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit B

AMES COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 15,213,878	2,956,915	2,290,422	(9,966,541)	0	(9,966,541)
Special instruction	6,342,510	0	222,732	(6,119,778)	0	(6,119,778)
Other instruction	4,484,020	1,167,819	0	(3,316,201)	0	(3,316,201)
	<u>26,040,408</u>	<u>4,124,734</u>	<u>2,513,154</u>	<u>(19,402,520)</u>	<u>0</u>	<u>(19,402,520)</u>
Support services:						
Student services	593,100	0	0	(593,100)	0	(593,100)
Instructional staff services	709,207	0	0	(709,207)	0	(709,207)
Administration services	5,444,262	0	0	(5,444,262)	0	(5,444,262)
Operation and maintenance of plant services	3,492,218	0	0	(3,492,218)	0	(3,492,218)
Transportation services	1,412,548	176,879	35,860	(1,199,809)	0	(1,199,809)
	<u>11,651,335</u>	<u>176,879</u>	<u>35,860</u>	<u>(11,438,596)</u>	<u>0</u>	<u>(11,438,596)</u>
Other expenditures:						
Facilities acquisitions	4,580,178	0	0	(4,580,178)	0	(4,580,178)
Long-term debt interest	624,737	0	0	(624,737)	0	(624,737)
AEA flowthrough	1,221,693	0	1,221,693	0	0	0
Depreciation(unallocated)*	1,463,990	0	0	(1,463,990)	0	(1,463,990)
	<u>7,890,598</u>	<u>0</u>	<u>1,221,693</u>	<u>(6,668,905)</u>	<u>0</u>	<u>(6,668,905)</u>
Total governmental activities	45,582,341	4,301,613	3,770,707	(37,510,021)	0	(37,510,021)
Business-Type activities:						
Support services						
Nutrition services	683,486	621,943	0	0	(61,543)	(61,543)
Non-instructional programs:						
Nutrition services	761,758	336,348	425,410	0	0	0
Total business-type activities	1,445,244	958,291	425,410	0	(61,543)	(61,543)
Total	<u>\$ 47,027,585</u>	<u>5,259,904</u>	<u>4,196,117</u>	<u>(37,510,021)</u>	<u>(61,543)</u>	<u>(37,571,564)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 20,595,258	0	20,595,258
Debt service				680,570	0	680,570
Capital outlay				2,962,372	0	2,962,372
Income surtax				1,771,989	0	1,771,989
Local option sales and services tax				3,891,808	0	3,891,808
Unrestricted state grants				11,429,589	0	11,429,589
Unrestricted investment earnings				682,095	0	682,095
Other				575,463	0	575,463
Total general revenues				<u>42,589,144</u>	<u>0</u>	<u>42,589,144</u>
Change in net assets before capital contributions				5,079,123	(61,543)	5,017,580
Capital contributions				0	748,077	748,077
Changes in net assets				5,079,123	686,534	5,765,657
Net assets beginning of year				36,203,131	(785,518)	35,417,613
Net assets end of year				<u>\$ 41,282,254</u>	<u>(98,984)</u>	<u>41,183,270</u>

\* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

AMES COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
<b>ASSETS</b>					
Cash and pooled investments	\$ 10,799,989	59,301	576,554	2,925,168	14,361,012
Receivables:					
Property tax					
Delinquent	168,110	0	6,228	47,085	221,423
Succeeding year	17,350,644	0	2,686,873	5,265,296	25,302,813
Income surtax	1,575,034	0	0	0	1,575,034
Interfund	488,605	19	0	0	488,624
Accounts	431,959	0	0	2,108	434,067
Due from other governments	1,394,218	623,842	38	286	2,018,384
Inventories	15,808	0	0	0	15,808
Prepaid items	20,363	0	0	0	20,363
<b>TOTAL ASSETS</b>	<b>\$ 32,244,730</b>	<b>683,162</b>	<b>3,269,693</b>	<b>8,239,943</b>	<b>44,437,528</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Interfund payable	\$ 19	0	0	0	19
Accounts payable	399,046	841,436	0	502,799	1,743,281
Salaries and benefits payable	4,338,078	0	0	0	4,338,078
Deferred revenue:					
Succeeding year property tax	17,350,644	0	2,686,873	5,265,296	25,302,813
Income surtax	1,575,034	0	0	0	1,575,034
Other	46,081	0	0	0	46,081
Unearned revenue	37,499	0	0	18,990	56,489
<b>Total liabilities</b>	<b>23,746,401</b>	<b>841,436</b>	<b>2,686,873</b>	<b>5,787,085</b>	<b>33,061,795</b>
<b>Fund balances:</b>					
Reserved for:					
Early intervention	1,020	0	0	0	1,020
Additional teacher contract day	2,461	0	0	0	2,461
Debt service	0	0	582,820	0	582,820
Inventories	15,808	0	0	0	15,808
Prepaid items	20,363	0	0	0	20,363
Unreserved:					
Designated for special purposes	541,800	0	0	0	541,800
Designated for cash flow	6,200,000	0	0	0	6,200,000
Undesignated:					
General	1,716,877	0	0	0	1,716,877
Capital projects	0	(158,274)	0	0	(158,274)
Management levy	0	0	0	1,506,850	1,506,850
Other special revenue purposes	0	0	0	330,129	330,129
Physical plant and equipment levy	0	0	0	615,879	615,879
<b>Total fund balances</b>	<b>8,498,329</b>	<b>(158,274)</b>	<b>582,820</b>	<b>2,452,858</b>	<b>11,375,733</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 32,244,730</b>	<b>683,162</b>	<b>3,269,693</b>	<b>8,239,943</b>	<b>44,437,528</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

AMES COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2006

<b>Total fund balances of governmental funds (page 16)</b>	\$ 11,375,733
<b><i>Amounts reported for governmental activities in the statement of net assets are different because:</i></b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	55,407,462
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	1,575,034
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	4,697,836
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(107,768)
Long-term liabilities, including bonds payable, capital loan notes payable, early retirement payable, termination benefit payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(31,666,043)
<b>Net assets of governmental activites (page 14)</b>	<u><u>\$ 41,282,254</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

AMES COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
<b>REVENUES:</b>					
Local sources:					
Local tax	\$ 20,078,646	3,891,808	680,570	5,166,724	29,817,748
Tuition	2,881,124	0	0	0	2,881,124
Other	1,469,551	59,798	12,067	1,107,036	2,648,452
State sources	14,015,952	0	239	1,807	14,017,998
Federal sources	1,182,298	0	0	0	1,182,298
Total revenues	39,627,571	3,951,606	692,876	6,275,567	50,547,620
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular instruction	15,935,567	0	0	825,096	16,760,663
Special instruction	6,915,251	0	0	0	6,915,251
Other instruction	3,570,718	0	0	958,101	4,528,819
	26,421,536	0	0	1,783,197	28,204,733
Support services:					
Student services	745,104	0	0	0	745,104
Instructional staff services	781,440	0	0	0	781,440
Administration services	4,773,616	773,862	0	5,510	5,552,988
Operation and maintenance of plant services	3,175,673	0	0	393,657	3,569,330
Transportation services	1,344,175	0	0	43,412	1,387,587
	10,820,008	773,862	0	442,579	12,036,449
Other expenditures:					
Facilities acquisitions	0	10,195,094	0	3,053,919	13,249,013
Long-term debt:					
Principal	0	0	905,000	0	905,000
Interest and fiscal charges	0	0	550,218	0	550,218
AEA flowthrough	1,221,693	0	0	0	1,221,693
	1,221,693	10,195,094	1,455,218	3,053,919	15,925,924
Total expenditures	38,463,237	10,968,956	1,455,218	5,279,695	56,167,106
Excess(deficiency) of revenues over(under) expenditures	1,164,334	(7,017,350)	(762,342)	995,872	(5,619,486)
Other financing sources(uses):					
Transfer in	0	0	1,321,413	145,000	1,466,413
Transfer out	0	(841,176)	0	(625,237)	(1,466,413)
Issuance of revenue bonds	0	0	20,000,000	0	20,000,000
Issuance of bond anticipation notes	0	11,600,000	0	0	11,600,000
Advance refunding of bond anticipation notes	0	0	(20,000,000)	0	(20,000,000)
Sale of equipment	29,595	0	0	0	29,595
Total other financing sources	29,595	10,758,824	1,321,413	(480,237)	11,629,595
Net change in fund balances	1,193,929	3,741,474	559,071	515,635	6,010,109
Fund balance beginning of year	7,304,400	(3,899,748)	23,749	1,937,223	5,365,624
Fund balance end of year	\$ 8,498,329	(158,274)	582,820	2,452,858	11,375,733

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

AMES COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 18) \$ 6,010,109

**Amounts reported for governmental activities in the  
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceed depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 8,716,079	
Depreciation expense	(1,634,252)	7,081,827

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Issued	(31,600,000)	
Repaid	20,905,000	(10,695,000)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

(74,519)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.

84,249

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early Retirement	\$ 229,616	
Other Termination Benefit	(37,109)	
Compensated Absences	3,008	195,515

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance and printing at an entity-wide basis.

2,476,942

Changes in net assets of governmental activities (page 15) \$ 5,079,123

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

AMES COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2006

	Business- type Activities - Enterprise Fund School Nutrition	Governmental Activities - Internal Service Funds
ASSETS		
Cash and pooled investments	\$ 1	5,117,109
Receivables:		
Accounts	45,267	0
Inventories	15,497	0
Capital assets, net of accumulated depreciation (Note 5)	844,778	0
TOTAL ASSETS	<u>905,543</u>	<u>5,117,109</u>
LIABILITIES		
Interfund payable	488,605	0
Accounts payable	493,809	188
Salaries and benefits payable	2,372	0
Incurred but not reported claims	0	419,085
Unearned revenues	19,741	0
TOTAL LIABILITIES	<u>1,004,527</u>	<u>419,273</u>
NET ASSETS		
Investment in capital assets, net of related debt	844,778	0
Unrestricted:		
Undesignated	(943,762)	4,697,836
TOTAL NET ASSETS	<u>\$ (98,984)</u>	<u>4,697,836</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

AMES COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2006

	Business- type Activities - Enterprise - Fund School Nutrition	Governmental Activities - Internal Service Funds
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 958,291	4,809,198
TOTAL OPERATING REVENUES	958,291	4,809,198
OPERATING EXPENSES:		
Support services:		
Administration services:		
Services	666,702	0
Other	1,862	0
Operation and maintenance of plant services:		
Services	14,922	0
	683,486	0
Non-instructional programs:		
Salaries	18,420	0
Benefits	10,755	2,327,212
Services	43,373	0
Supplies	583,819	5,044
Depreciation	85,910	0
	742,277	2,332,256
TOTAL OPERATING EXPENSES	1,425,763	2,332,256
OPERATING INCOME (LOSS)	(467,472)	2,476,942
NON-OPERATING REVENUES (EXPENSES):		
Loss on disposal of assets	(19,481)	0
State sources	12,517	0
Federal sources	412,893	0
TOTAL NON-OPERATING REVENUES (EXPENSES)	405,929	0
Change in net assets before capital contributions	(61,543)	2,476,942
Capital contributions	748,077	0
Change in net assets	686,534	2,476,942
Net assets beginning of year	(785,518)	2,220,894
Net assets end of year	\$ (98,984)	4,697,836

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



AMES COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2006

	Business- type Activities - Enterprise Fund School Nutrition	Governmental Activities - Internal Service Funds
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 817,273	0
Cash received from miscellaneous operating activities	102,138	4,809,343
Cash payments to employees for services	(29,341)	(2,327,212)
Cash payments to suppliers for goods or services	(814,447)	(1,086,859)
Net cash provided by(used in) operating activities	75,623	1,395,272
Cash flows from non-capital financing activities:		
Loan from General Fund	16,814	0
State grants received	12,517	0
Federal grants received	361,947	0
Net cash provided by non-capital financing activities	391,278	0
Net increase in cash and cash equivalents	466,901	1,395,272
Cash and cash equivalents at beginning of year	(466,900)	3,721,837
Cash and cash equivalents at end of year	\$ 1	5,117,109
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (467,472)	2,476,942
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:		
Commodities consumed	50,946	0
Depreciation	85,910	0
Decrease in inventories	20,526	0
(Increase)Decrease in accounts receivable	(44,711)	483,858
Increase(Decrease) in accounts payable	424,759	(812)
Decrease in salaries and benefits payable	(166)	0
Decrease in incurred but not reported claims	0	(1,080,915)
Increase(Decrease) in unearned revenue	5,831	(483,101)
Net cash provided by operating activities	\$ 75,623	1,395,972
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	\$ 1	5,117,109

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$50,946.

During the year ended June 30, 2006, the Capital Projects Fund contributed capital of \$748,077.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

AMES COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
JUNE 30, 2006

	<u>Agency</u>
ASSETS	
Cash and pooled investments	\$ 55,504
Accounts receivable	78,333
Due from other groups	409
TOTAL ASSETS	<u>\$ 134,246</u>
LIABILITIES	
Excess of warrants issued over bank balance	\$ 73,325
Accounts payable	3,782
Due to other groups	57,139
TOTAL LIABILITIES	<u>\$ 134,246</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

AMES COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2006

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Interest and dividends	\$ 1,973
Total additions	<u>1,973</u>
Deductions:	
Non-instructional programs:	
Fees and scholarships awarded	2,341
Total deductions	<u>2,341</u>
Net loss before other financing sources(uses)	(368)
Other financing sources(uses):	
Loss on sale of stock	(1,577)
Change in market value	448
Distribution of trust balance	(86,733)
	<u>(87,862)</u>
Change in net assets	(88,230)
Net assets beginning of year	<u>88,230</u>
Net assets end of year	<u>\$ 0</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

AMES COMMUNITY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2006

**(1) Summary of Significant Accounting Policies**

The Ames Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served primarily includes the City of Ames, Iowa. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Ames Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Ames Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Story County Assessors' Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference

reported as net assets. Net assets are reported in three categories:

*Investment in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's long-term debt.

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Funds, Print Shop Fund and Health Insurance Fund. The Nutrition Fund is used to account for the food service operations of the District. The Print Shop Fund is used to account for the printing operations of the District. The Health Insurance Fund is

used to account for the self-funded health insurance operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of result of operations.

#### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the

District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust and IPASeducation which are valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following

fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Prepaid Items - The District prepaid items from the General Fund. Items prepaid include disability and life insurance premiums for the 2006-07 year.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 5,000
Buildings	5,000
Land improvements	5,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:



Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for student fees and lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the balance sheet in the Enterprise, School Nutrition Fund. The student fees are fees for the next year. The student fee balances are reflected on the balance sheet in the General Fund and Special Revenue Fund, Student Activity Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 521,047</u>

At June 30, 2006, the District had investments in the IPASeducation as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 8,735,763</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service. The investments in the IPASeducation are registered and not subject to rating.

(3) **Transfers**

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenues - Physical Plant and Equipment Levy	\$ 625,237
Special Revenues - Physical Plant and Equipment Levy	Capital Projects	145,000
Debt Service	Capital Projects	<u>696,176</u>
Total		<u><u>\$ 1,466,413</u></u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**(4) Interfund Receivables and Payables**

The detail of interfund receivables and payables at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Enterprise Fund - School Nutrition	\$ 488,605
Capital Projects	General	<u>19</u>
Total		<u><u>\$ 488,624</u></u>

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,981,652	0	0	4,981,652
Construction in progress	29,931,741	169,931	29,931,741	169,931
Total capital assets not being depreciated	34,913,393	169,931	29,931,741	5,151,583
Capital assets being depreciated:				
Buildings	25,948,192	32,522,791	0	58,470,983
Land improvements	1,992,252	5,369,444	0	7,361,696
Machinery and equipment	2,351,694	585,654	0	2,937,348
Total capital assets being depreciated	30,292,138	38,477,889	0	68,770,027
Less accumulated depreciation for:				
Buildings	14,460,261	1,144,040	0	15,604,301
Land improvements	1,207,521	319,950	0	1,527,471
Machinery and equipment	1,212,114	170,262	0	1,382,376
Total accumulated depreciation	16,879,896	1,634,252	0	18,514,148
Total capital assets being depreciated, net	13,412,242	36,843,637	0	50,255,879
Governmental activities capital assets, net	\$ 48,325,635	37,013,568	29,931,741	55,407,462

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 542,740	748,077	154,528	1,136,289
Less accumulated depreciation	340,648	85,910	135,047	291,511
Business-type activities capital assets, net	\$ 202,092	662,167	19,481	844,778

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 77,860
Support services:	
Administration	9,610
Operation and maintenance	57,061
Transportation	25,731
	170,262
Unallocated depreciation	1,463,990
Total governmental activities depreciation expense	\$ 1,634,252
Business-type activities:	
Food services	\$ 85,910

## (6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 9,005,000	0	350,000	8,655,000	365,000
Revenue Bonds	0	20,000,000	0	20,000,000	2,083,550
Bond Anticipatory Notes	8,400,000	11,600,000	20,000,000	0	0
Capital Loan Notes	1,555,000	0	555,000	1,000,000	580,000
Early Retirement	1,884,357	560,259	789,875	1,654,741	610,290
Other Termination Benefit	0	37,109	0	37,109	6,761
Compensated Absences	322,201	319,193	322,201	319,193	319,193
Total	\$ 21,166,558	32,516,561	22,017,076	31,666,043	3,964,794

#### General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond Issue of March 1, 2004		
		Principal	Interest	Total
2007	3.00 % \$	365,000	320,872	685,872
2008	3.50	380,000	309,923	689,923
2009	3.50	395,000	296,623	691,623
2010	3.50	415,000	282,797	697,797
2011	3.50	430,000	268,272	698,272
2012-2016	3.05-3.65	2,410,000	1,115,006	3,525,006
2017-2021	3.75-4.10	2,910,000	641,437	3,551,437
2022-2023	4.15-4.25	1,350,000	86,040	1,436,040
Total		\$ 8,655,000	3,320,970	11,975,970

#### Revenue Bonds Payable

Details of the District's June 30, 2006 local option sales and services tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	2006 Series A		2006 Series B		Total		
		Principal	Interest	Principal	Interest	Principal	Interest	Total
2007	4.65 % \$	1,041,775	446,963	1,041,775	446,963	2,083,550	893,926	2,977,476
2008	4.65	1,304,514	388,988	1,304,514	388,988	2,609,028	777,976	3,387,004
2009	4.65	1,366,484	327,018	1,366,484	327,018	2,732,968	654,036	3,387,004
2010	4.65	1,431,397	262,105	1,431,397	262,105	2,862,794	524,210	3,387,004
2011	4.65	1,499,395	194,108	1,499,395	194,108	2,998,790	388,216	3,387,006
2012-2014	4.65	3,356,435	171,696	3,356,435	171,696	6,712,870	343,392	7,056,262
Total		\$ 10,000,000	1,790,878	10,000,000	1,790,878	20,000,000	3,581,756	23,581,756

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by

the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- b) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- c) In each month commencing October 1, 2006 receipts of the local option sales and services tax after deposits to the Sinking Fund shall be deposited in the Reserve Fund until there is on deposit in the Reserve Fund the amount of \$1,000,000.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

#### Capital Loan Notes

During the year ended June 30, 2001 the District issued \$2,800,000 in capital loan notes to purchase 122.75 acres of land. During the year ended June 30, 2004, the District issued \$710,000 in capital loan notes to purchase technology equipment. Both of these loans are paid from the Physical Plant and Equipment Levy (PPEL) Fund. Details of the capital loan notes indebtedness at June 30, 2006 are as follows:

Year Ending June 30,	June 30, 2001		June 30, 2004		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 375,000	57,110	180,000	13,127	555,000	70,237
2007	395,000	38,923	185,000	6,845	580,000	45,768
2008	420,000	20,160	0	0	420,000	20,160
	<u>\$ 1,190,000</u>	<u>116,193</u>	<u>365,000</u>	<u>19,972</u>	<u>1,555,000</u>	<u>136,165</u>

#### **(7) Termination Benefits**

##### Early Retirement

The District offers a voluntary early retirement plan to its certified and support staff employees. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education.

Early retirement incentive for each eligible employee approved by the Board will be based on the number of days of accumulated sick leave (maximum of 165 days) times 15% of the employee's per diem salary. For this purpose, per diem salary is defined as base salary plus longevity pay. The employee will receive an

additional \$15 for each day of accumulated sick leave (maximum of 165 days).

The District shall contribute the lump sum amount of the employee's retirement compensation directly in an account for the employee under the District's Employer Sponsored 403(b) Special Pay Deferral Plan, as a non-elective employer contribution, within 60 days of the employee's retirement effective date; provided, however, that the amount of such contribution shall not exceed the application limitations under section 403(b) and other applicable provisions of the Internal Revenue Code of 1986, as amended.

As part of the early retirement incentive, the District will pay a fixed dollar amount per month for single medical insurance coverage until the retiree reaches age 65. The dollar amount (currently \$411.86) will be the single premium for plan 4 (\$1,000 deductible). The rate in effect at the retirement effective date will be the rate provided by the District. The District's contribution toward medical insurance will not increase after established at the retirement effective date.

Early retirement benefits paid during the year ended June 30, 2006, totaled \$786,181. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

#### Other Termination Benefit

The District offered a special termination benefit for an employee that resigned during the year. The District agreed to pay a fixed amount per month for single medical insurance coverage until the employee reaches age 65. Health and dental insurance will be paid until April 2013 at the rate of \$433.54. The District also agreed to pay life insurance for one year at the rate of \$65.

A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

### **(8) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$1,371,122, \$1,299,350 and \$1,309,325 respectively, equal to the required contributions for each year.

**(9) Risk Management**

The District has a self-funded health and dental insurance plan. The District purchases commercial insurance to provide for aggregate stop-loss coverage for the excess of 125% of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess \$75,000 in insured claims for any one covered individual. Settled aggregate stop-loss claims have not exceeded the commercial coverage in any of the past two years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. That balance was \$4,959,501 at April 30, 2006, the last date for which information is available. The incurred but not recorded and unpaid claims liability of \$419,085 reported in the plan at April 30, 2006, is based on the requirements of GASB Statement Number 10, is included as a liability on the Statement of Net Assets.

In addition, the District is exposed to various risks to loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years.

**(10) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$1,221,693 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(11) Construction Commitment**

The District has entered into contracts totaling \$554,351 for a miscellaneous roof project and for a masonry screen wall around a chiller. As of June 30, 2006, costs of \$169,931 had been incurred against the contracts. The balance of \$384,420 remaining at June 30, 2006 will be paid as work on the project progresses.

**(12) Deficit Net Assets**

The Enterprise Fund, Nutrition Fund had deficit net assets of \$98,984 at June 30, 2006. The Capital Projects Fund had deficit net assets of \$158,274 at June 30, 2006.

**(13) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.



**(14) Contingencies**

As of June 30, 2006, the District is involved in various claims and lawsuits against the District that arise in the normal course of operations, which are covered by insurance. The outcome and eventual liability of the District, if any, from these claims and any unasserted claims is not known at this time; however, management does not believe they will be material to the basic financial statements.

**(15) Subsequent Events**

The State Auditor's office conducted a re-audit of the Ames Community School District, dated July 7, 2006 and released the report on November 16, 2006. The audit was for the period of July 1, 2004 to June 30, 2005. More information is available in comment IV-K-06 on page 59 of this audit report.

REQUIRED SUPPLEMENTARY INFORMATION

AMES COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
Revenues:						
Local sources	\$ 35,347,324	958,291	36,305,615	35,001,354	35,001,354	1,304,261
State sources	14,017,998	12,517	14,030,515	13,909,401	13,909,401	121,114
Federal sources	1,182,298	412,893	1,595,191	1,485,000	1,485,000	110,191
Total revenues	50,547,620	1,383,701	51,931,321	50,395,755	50,395,755	1,535,566
Expenditures:						
Instruction	28,204,733	0	28,204,733	28,194,639	28,900,000	695,267
Support services	12,036,449	683,486	12,719,935	9,964,000	11,800,000	(919,935)
Non-instructional programs	0	742,708	742,708	1,233,500	800,000	57,292
Other expenditures	15,925,924	0	15,925,924	17,832,225	16,970,000	1,044,076
Total expenditures	56,167,106	1,426,194	57,593,300	57,224,364	58,470,000	876,700
Deficiency of revenues under expenditures	(5,619,486)	(42,493)	(5,661,979)	(6,828,609)	(8,074,245)	2,412,266
Other financing sources, net	11,629,595	733,824	12,363,419	8,500,000	8,500,000	3,863,419
Excess of revenues and other financing sources over expenditures	6,010,109	691,331	6,701,440	1,671,391	425,755	6,275,685
Balance beginning of year	5,362,624	(785,518)	4,577,106	7,378,648	7,378,648	2,801,542
Balance end of year	\$ 11,372,733	(94,187)	11,278,546	9,050,039	7,804,403	9,077,227

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AMES COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted on budget amendment increasing budgeted expenditures by \$1,245,636.

During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION



AMES COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
JUNE 30, 2006

	Special Revenue Funds			
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds
ASSETS				
Cash and pooled investments	\$ 1,520,867	377,207	1,027,094	2,925,168
Receivables:				
Property tax:				
Current year delinquent	20,150	0	26,935	47,085
Succeeding year	2,200,000	0	3,065,296	5,265,296
Accounts	0	368	1,740	2,108
Due from other governments	122	0	164	286
TOTAL ASSETS	\$ 3,741,139	377,575	4,121,229	8,239,943
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	\$ 34,289	28,456	440,054	502,799
Deferred revenue:				
Succeeding year property tax	2,200,000	0	3,065,296	5,265,296
Unearned revenue	0	18,990	0	18,990
	2,234,289	47,446	3,505,350	5,787,085
Fund equity:				
Fund balances:				
Unreserved, undesignated	1,506,850	330,129	615,879	2,452,858
	1,506,850	330,129	615,879	2,452,858
TOTAL LIABILITIES AND FUND EQUITY	\$ 3,741,139	377,575	4,121,229	8,239,943

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AMES COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds			
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds
REVENUES:				
Local sources:				
Local tax	\$ 2,204,352	0	2,962,372	5,166,724
Other	27,619	983,591	95,826	1,107,036
State sources	773	0	1,034	1,807
TOTAL REVENUES	2,232,744	983,591	3,059,232	6,275,567
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	825,096	0	0	825,096
Other instruction	0	958,101	0	958,101
Support services:				
Administration services	2,795	0	2,715	5,510
Operation and maintenance of plant services	393,657	0	0	393,657
Transportation services	0	43,412	0	43,412
Other expenditures:				
Facilities acquisition	0	0	3,053,919	3,053,919
TOTAL EXPENDITURES	1,221,548	1,001,513	3,056,634	5,279,695
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	1,011,196	(17,922)	2,598	995,872
OTHER FINANCING SOURCES(USES):				
Transfers in	0	0	145,000	145,000
Transfers out	0	0	(625,237)	(625,237)
	0	0	(480,237)	(480,237)
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES AND OTHER FINANCING USES	1,011,196	(17,922)	(477,639)	515,635
FUND BALANCE BEGINNING OF YEAR	495,654	348,051	1,093,518	1,937,223
FUND BALANCE END OF YEAR	\$ 1,506,850	330,129	615,879	2,452,858

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



AMES COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
District-wide	\$ 1,458	0	0	1,458
Edwards	1,292	324	1,567	49
Fellows	1,093	2,168	1,128	2,133
Meeker	1,459	4,711	3,344	2,826
Mitchell	1,376	1,519	1,722	1,173
Sawyer	6,760	9,943	11,921	4,782
Wilson-Beardshear	2,097	2,022	2,043	2,076
Middle School	134,232	182,287	154,374	162,145
High School	198,284	780,617	825,414	153,487
Total	\$ 348,051	983,591	1,001,513	330,129

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AMES COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -  
AGENCY FUND  
YEAR ENDED JUNE 30, 2006

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
<u>AMES EDUCATION FOUNDATION</u>				
ASSETS				
Accounts receivable	\$ 55,386	73,027	55,386	73,027
Due from other groups	0	409	0	409
	<u>\$ 55,386</u>	<u>73,436</u>	<u>55,386</u>	<u>73,436</u>
LIABILITIES				
Excess of warrants issued over bank balance	\$ 52,862	73,325	52,862	73,325
Accounts payable	1,328	111	1,328	111
Salaries and benefits payable	1,196	0	1,196	0
	<u>\$ 55,386</u>	<u>73,436</u>	<u>55,386</u>	<u>73,436</u>
<u>VOCATIONAL CONSORTIUM</u>				
Cash and pooled investments	\$ 6,625	5,806	6,625	5,806
	<u>\$ 6,625</u>	<u>5,806</u>	<u>6,625</u>	<u>5,806</u>
LIABILITIES				
Accounts payable	\$ 0	3,671	0	3,671
Due to other groups	6,625	2,135	6,625	2,135
	<u>\$ 6,625</u>	<u>5,806</u>	<u>6,625</u>	<u>5,806</u>
<u>HS/MS/ELEMENTARY AGENCY</u>				
ASSETS				
Cash and pooled investments	\$ 14,144	49,698	14,144	49,698
Accounts receivable	0	5,306	0	5,306
	<u>\$ 14,144</u>	<u>55,004</u>	<u>14,144</u>	<u>55,004</u>
LIABILITIES				
Due to other groups	\$ 14,144	55,004	14,144	55,004
	<u>\$ 14,144</u>	<u>55,004</u>	<u>14,144</u>	<u>55,004</u>
<u>TOTALS - ALL AGENCY FUNDS</u>				
ASSETS				
Cash and pooled investments	\$ 20,769	55,504	20,769	55,504
Accounts receivable	55,386	78,333	55,386	78,333
Due from other groups	0	409	0	409
	<u>\$ 76,155</u>	<u>134,246</u>	<u>76,155</u>	<u>134,246</u>
LIABILITIES				
Excess of warrants issued over bank balance	\$ 52,862	73,325	52,862	73,325
Accounts payable	1,328	3,782	1,328	3,782
Salaries and benefits payable	1,196	0	1,196	0
Due to other groups	20,769	57,139	20,769	57,139
	<u>\$ 76,155</u>	<u>134,246</u>	<u>76,155</u>	<u>134,246</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AMES COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF NET ASSETS  
 INTERNAL SERVICE FUNDS  
 JUNE 30, 2006

	Governmental Activities - Internal Service Funds		
	Health	Print	Total
	Insurance	Shop	
ASSETS			
Cash and pooled investments	\$ 5,117,021	88	5,117,109
TOTAL ASSETS	5,117,021	88	5,117,109
LIABILITIES			
Accounts payable	100	88	188
Incurred but not reported claims	419,085	0	419,085
TOTAL LIABILITIES	419,185	88	419,273
NET ASSETS			
Unrestricted, undesignated	4,697,836	0	4,697,836
TOTAL NET ASSETS	\$ 4,697,836	0	4,697,836

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AMES COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN NET ASSETS  
 INTERNAL SERVICE FUNDS  
 YEAR ENDED JUNE 30, 2006

	Governmental Activities - Internal Service Funds		
	Health Insurance	Print Shop	Total
OPERATING REVENUE:			
Local sources:			
Charges for services	\$ 4,774,202	34,996	4,809,198
TOTAL OPERATING REVENUES	4,774,202	34,996	4,809,198
OPERATING EXPENSES:			
Non-instructional programs:			
Benefits	2,327,212	0	2,327,212
Supplies	5,044	0	5,044
TOTAL OPERATING EXPENSES	2,332,256	0	2,332,256
Change in net assets	2,441,946	34,996	2,476,942
Net assets beginning of year	2,255,890	(34,996)	2,220,894
Net assets end of year	\$ 4,697,836	0	4,697,836

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AMES COMMUNITY SCHOOL DISTRICT  
COMBINING STATEMENT OF CASH FLOWS  
INTERNAL SERVICE FUNDS  
YEAR ENDED JUNE 30, 2006

	Governmental Activities - Internal Service Funds		
	Health Insurance	Print Shop	Total
Cash flows from operating activities:			
Cash received from miscellaneous operating activities	\$ 4,774,238	35,105	4,809,343
Cash received from miscellaneous operating activities	(2,327,212)	0	(2,327,212)
Cash payments to suppliers for goods or services	(1,086,859)	0	(1,086,859)
Net cash provided by operating activities	1,360,167	35,105	1,395,272
Net increase in cash and cash equivalents	1,360,167	35,105	1,395,272
Cash and cash equivalents at beginning of year	3,756,854	(35,017)	3,721,837
Cash and cash equivalents at end of year	\$ 5,117,021	88	5,117,109
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 2,441,946	34,996	2,476,942
Adjustments to reconcile operating income to net cash provided by operating activities:			
Decrease in accounts receivable	483,837	21	483,858
(Decrease)Increase in accounts payable	(900)	88	(812)
Decrease in incurred but not reported claims	(1,080,915)	0	(1,080,915)
Decrease in unearned revenue	(483,101)	0	(483,101)
Net cash provided by operating activities	\$ 1,360,867	35,105	1,395,972
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 5,117,021	88	5,117,109

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AMES COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
<b>Revenues:</b>					
Local sources:					
Local tax	\$	29,817,748	29,875,333	28,146,387	24,485,168
Tuition		2,881,124	2,674,002	2,084,827	1,888,407
Other		2,648,452	1,830,736	1,540,697	1,667,320
State sources		14,017,998	14,134,624	13,937,110	14,218,846
Federal sources		1,182,298	1,455,320	966,725	963,395
Total	\$	50,547,620	49,970,015	46,675,746	43,223,136
<b>Expenditures:</b>					
Instruction:					
Regular instruction	\$	16,760,663	17,174,548	17,607,918	17,352,060
Special instruction		6,915,251	6,378,855	7,348,660	6,676,468
Other instruction		4,528,819	3,909,347	2,234,282	2,407,881
Support services:					
Student services		745,104	797,409	1,745,654	1,603,668
Instructional staff services		781,440	1,365,352	1,398,942	1,449,101
Administration services		5,552,988	3,647,865	2,486,807	2,402,344
Operation and maintenance of plant services		3,569,330	3,258,440	3,113,517	2,988,780
Transportation services		1,387,587	1,170,207	795,050	739,955
Central support services		0	0	289,631	264,321
Non-instructional programs		0	0	2,400	24,839
Other expenditures:					
Facilities acquisitions		13,249,013	25,733,717	9,000,261	2,469,179
Long-term debt:					
Principal		905,000	865,000	1,170,000	1,700,000
Interest and other charges		550,218	512,918	222,796	154,894
AEA flow-through		1,221,693	1,217,993	1,235,782	1,315,387
Total	\$	56,167,106	66,031,651	48,651,700	41,548,877

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AMES COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION	10.550	FY 06	\$ 50,946
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 06	51,907
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 06	310,040
			<u>361,947</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	0225-G	412,995
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	0225-D	93,813
			<u>506,808</u>
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 06	<u>52,565</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES(TITLE V PROGRAM)	84.151	FY 06	<u>250</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 06	<u>19,486</u>
EDUCATION FOR HOMELESS CHILDREN AND YOUTH	84.196	FY 06	<u>25,000</u>
FUND FOR THE IMPROVEMENT OF EDUCATION	84.215K	FY 06	<u>10,400</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 05	46,806
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 06	142,802
			<u>189,608</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI)	84.369	FY 05	4,986
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI)	84.369	FY 06	23,806
			<u>28,792</u>

AMES COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT (CONTINUED):			
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 06	<u>222,732</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
CENTERS FOR DISEASE CONTROL AND PREVENTION:			
COOPERATIVE AGREEMENTS TO SUPPORT COMPREHENSIVE SCHOOL HEALTH PROGRAMS TO PREVENT THE SPREAD OF HIV AND OTHER IMPORTANT HEALTH PROBLEMS	93.338	FY 06	<u>900</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
ADMINISTRATION FOR CHILDREN AND FAMILIES:			
PROMOTING SAFE AND STABLE FAMILIES	93.556	FY 06	<u>500</u>
SOCIAL SECURITY ADMINISTRATION:			
SOCIAL SECURITY - RESEARCH AND DEMONSTRATION	96.007	FY 06	<u>7,523</u>
TOTAL			<u><u>\$ 1,477,457</u></u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Ames Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

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### Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the  
Ames Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Ames Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 11, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ames Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no material weaknesses during course of the audit.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ames Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

Members American Institute & Iowa Society of Certified Public Accountants

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Ames Community School District and other parties to Ames Community School District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Ames Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

August 11, 2006

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
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Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Board of Education of  
Ames Community School District

Compliance

We have audited the compliance of Ames Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Ames Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Ames Community School District's management. Our responsibility is to express an opinion on Ames Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ames Community School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Ames Community School District's compliance with those requirements.

In our opinion, Ames Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Ames Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Ames Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with

applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Ames Community School District and other parties to whom Ames Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

  
NOLTE, CORNMAN & JOHNSON, P.C.

August 11, 2006

AMES COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No reportable conditions in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
  - Individual
    - CFDA Number 84.010 - Title I grants to Local Educational agencies
  - Cluster Programs
    - CFDA Number 10.553 - School Breakfast Program
    - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Ames Community School District qualified as a low-risk auditee.

AMES COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-06 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - Per Chapter 556.1(10) and 556.11 of the Code of Iowa, the District is required to report unclaimed property to the State Treasurer annually before November 1<sup>st</sup>. The District should submit the outstanding checks to the State Treasurer as unclaimed property.

Response - The District will submit the outstanding checks to the State Treasurer and will implement procedures to do this on a regular basis.

Conclusion - Response accepted.

- I-B-06 Student Activity Fund - We noted during our audit that the Student Activity fund included several interest accounts.

Recommendation - The interest earned each year should be allocated out at on an annual basis to the individual activity accounts.

Response - The District will allocate interest earned to the individual activity accounts.

Conclusion - Response accepted.

- I-C-06 Petty Cash and Public Purpose Documentation - We noted during our audit that there were reimbursements from Petty Cash to employees for staff welcome bags, and the Petty Cash was not included on the books. In addition, checks written to fund the Petty Cash fund were not written to include a custodians name.

Recommendation - The District should review procedures in place in regards to the use of a Petty Cash fund. The Petty Cash should be included on the District financial statements or closed and deposited into the bank. Checks written by the District to fund the Petty Cash fund should be written to include a custodians name on the check. The District should adopt a policy in regards to documenting public purpose. In documenting public purpose, the District must provide why items, i.e. welcome bags, meet public purpose in using public funds.

Response - The District will review procedures in regards to the use of a Petty Cash fund and provide for appropriate handling and accounting for any Petty Cash on hand. The District will adopt a policy regarding documentation of public purpose in using public funds.

Conclusion - Response accepted.

AMES COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No reportable conditions were reported.

AMES COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

Part IV: Other Findings Related to Statutory Reporting

IV-A-06 Certified Budget - Expenditures for the year ended June 30, 2006 exceeded the amended certified budget amounts in the support services function.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

IV-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-06 Business Transactions - No business transactions between the District and District officials or employees were noted.

IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-06 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were tuitioned out was understated by 1 student in line 3, which resulted in understating the total actual enrollment on line 7 by 1 student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

IV-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.



IV-J-06 Financial Condition - The Enterprise Fund - Nutrition Fund had deficit net assets of \$98,984, at June 30, 2006. The Capital Projects Fund had a deficit unreserved, undesignated fund balance of \$158,274.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.

Response - We will continue to take steps to improve the financial condition of the Enterprise - Nutrition Fund. We will review funding sources available to eliminate the deficit in the Capital Projects Fund as we work to finalize the middle school construction project.

Conclusion - Response accepted.

IV-K-06 State Auditor's Office Re-audit - As noted in Note 12 of the District's financial statements, the State Auditor's office conducted a re-audit of the Ames Community School District, dated July 7, 2006 and released the report on November 16, 2006. The audit was for the period of July 1, 2004 to June 30, 2005. Their comments are listed as follows:

- A) CPMI, Inc. Contract - need for better controls in regards to additional contract payments.
- B) Financial Status Report - need for better controls in regards to additional contract payments.
- C) Consent Agenda - need for review of District policy in place that was not always followed.
- D) PPEL Fund Corrective Transfers - need for payments to be made out of correct funds.
- E) Management Fund Corrective Transfers - need for insurance proceeds for damages go to the fund where expenditures are allowed and coded.
- F) Change Orders - need for review of District policy in place that was not always followed.
- G) Additional Fees and Markups - need for better controls in regards to additional contract payments.
- H) Small Projects - need for clarification of District policy in place.
- I) Public Bidding - need to review procedures relating to competitive bids.
- J) District Bidding Requirements - need for review of District policy in place that was not always followed.
- K) Contracts and Purchase Orders - The Board President needs to sign all contracts made by the Board. The need for review of District policy in place that was not always followed.
- L) Sales Tax - need for seeking reimbursement of paying sales tax.
- M) Request of Proposal for Audit Services - need to review procedures and District policy in place.

The District has responded to the comments and is reviewing their procedures. As corrective actions are reached, they will be implemented by the District to comply with the recommendations of the State. Further information and the complete audit report may be obtained on the website of the State Auditor's Office.

